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Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



REAL

Resources Inc.

ANNUAL REPORT

1996

HIGHLIGHTS

	1996	1995
FINANCIAL (\$)		
Petroleum and natural gas sales	2,788,035	890,658
Operating income	1,946,569	518,725
Cash flow from operations	1,544,805	208,997
– per share (basic)	0.13	0.02
Net income	604,372	(3,391)
– per share (basic)	0.05	nil
Capital expenditures	3,487,856	2,293,007
Working capital	1,589,719	693,582
Long term debt	nil	nil
Number of common shares - at year end		
Basic	13,031,215	10,276,215
Fully diluted	14,271,215	11,051,215
OPERATING		
Working interest daily production		
Oil - bopd	223	85
Natural Gas - mcf/d	852	312
Barrels of oil equivalent - boe/d	308	116
Average prices		
Oil - \$/bbl	28.48	20.89
Natural Gas - \$/mcf	1.03	1.54
Working interest reserves - proven		
Oil - mbbls	477	330
Gas – mmcf	4497	2940
NGL – mbbls	62	57
Barrels of oil equivalent - mboe	989	681
LAND HOLDINGS		
Gross Acres	63,000	30,000
Net Acres	31,000	8,800

Corporate Profile

Real Resources Inc., ("Real" or "the Company") was incorporated in 1978 pursuant to the laws of Alberta and since 1989 Real's common shares have traded on the Alberta Stock Exchange under the symbol RER.

The Company's business is the acquisition of petroleum and natural gas rights and the exploration, development and production of oil and natural gas in Alberta and Saskatchewan. Real was substantially reorganized in September of 1994, at which time Renaissance Energy Ltd. sold its controlling interest in the Company and Real's existing board of directors assumed responsibility for the Company's affairs.

As part of the reorganization Real acquired Blue Ridge Resources Inc., a private Alberta oil and gas company with a principal producing property at Hays as well as other producing properties. The Blue Ridge assets included 3200 miles of non-proprietary and proprietary seismic and approximately 3000 net acres of land.

During 1995 the Company acquired a substantial position in the Evi area located in northwest Alberta. The acquisition added to Real's prospect inventory and provided an opportunity for high reward light oil potential.

During 1996 Real increased its land holdings to 31,000 net acres and expanded its position through successful exploration and development expanded its position in Hays, Little Bow and Evi. In January, 1997 the Company acquired Flatland Resources Ltd. to obtain a strategic position in Saskatchewan and complement its production and exploration base.

In 1996 Real expanded its management team with the additions of Gordie Crowell (VP Exploration) and Ken Murphy (VP Land and Corporate Development). Recently Bruce Lyon (Senior Geologist) joined the Company to direct Real's exploration efforts in Saskatchewan.

Real is a full-cycle exploration company which means that part of our business is to engage in the development of longer range exploration projects that can take up to three years to reach the drilling stage. This will be achieved by utilizing the latest available technology, including computerized information data bases, 3-D seismic and horizontal drilling.

As a result of the Company's efforts in exploration and acquisitions, production levels have increased from a 1995 exit rate of 171 boe/d to a 1996 exit rate of 439 boe/d. Present production now stands at approximately 600 boe/d.



ANNUAL MEETING

The Annual General and Special Meeting will be held at 3:00 p.m. (Calgary time) on June 12, 1997 at the Standard Life Conference Centre, 200, 639-5th Avenue S.W. Calgary Alberta.

Shareholders are encouraged to attend and those unable to do so should complete the Form of Proxy and forward it at their earliest convenience.

Report to our Shareholders

BUSINESS DISCUSSION

LAND: In 1996 Real increased its net land holdings from 8,800 acres to 31,000 acres. The increase consisted of the acquisition of Crown lands as well as freehold acquisitions on new exploratory prospects generated by the Company. Early in 1997, Real increased its land position in Saskatchewan through the addition of 7,000 net acres acquired with the purchase of Flatland Resources Ltd. An active land acquisition program is planned for Alberta and Saskatchewan in 1997.

EXPLORATION: The Company's strategy is to grow through exploration and apply the latest technology available. In addition to Real's expanding landbase Real owns 4100 miles of 2-D seismic data, 22% of which is proprietary, as well as 3-D seismic covering 35 sections of land. The Company has invested in its own in-house seismic interpretive workstation.

DRILLING: During 1996, the Company drilled twelve gross wells (4.4 net) resulting in five oil wells (1.7 net) and one gas well (0.5 net). Real operated six of these wells. The Company has plans to drill sixteen wells (5.8 net) in 1997.

RESERVES: During 1996 the Company increased its proven reserves by 45% from 681,000 boe to 989,000 boe.

PRODUCTION: The average daily production for the Company increased by 166 % from 116 boe/d in 1995 to 308 boe/d in 1996.

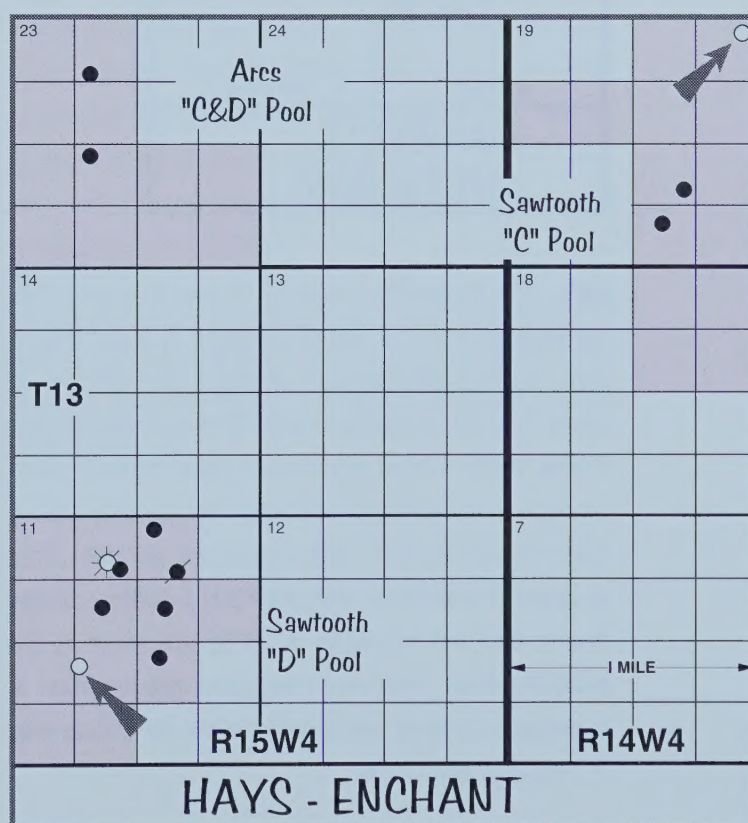
MAJOR PROSPECTS

SOUTHEAST ALBERTA: The Company has an average 42% working interest in 5240 acres in the Hays, Enchant, Little Bow, and Majorville prospects.

HAYS/ ENCHANT: In the Hays area, located southeast of Calgary, Real drilled three wells (1.4 net), resulting in two oil wells (0.9 net) and one water injector (0.5 net) during the fall of 1996. Real also commenced construction of its own battery facilities in the Hays area. These facilities include two water disposal wells which

will significantly decrease the cost of operations by eliminating trucking expenses. One of the pools is under-pressured and the water injection is expected to increase production over time as the pressure is being restored. The battery facilities were completed in March 1997 and the new wells were put on production at the same time. Real now operates 200 bopd (net 80 bopd) in the Hays area. Real plans to drill two wells on its Hays properties in 1997. The Company has 3-D seismic control over all of its Hays/Enchant acreage.

Re-interpretation of 3-D seismic will lead to drilling the higher reserve Nisku (Arcs) light oil play on Real's Enchant property during 1997.

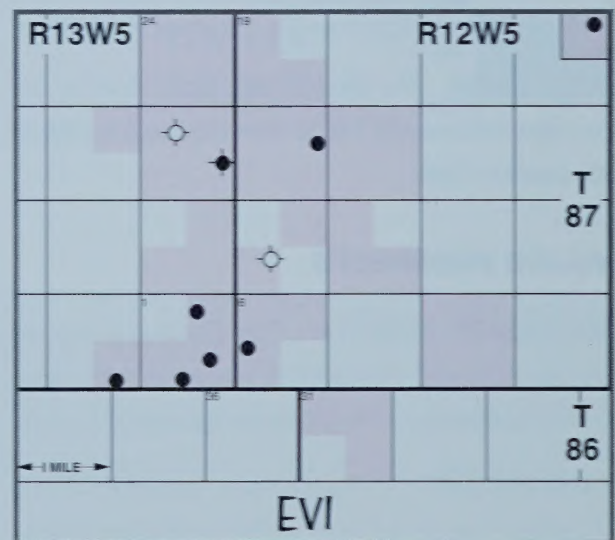




EVI: The Company currently has an average 25% working interest in 7,360 gross acres in this prospect area. During 1996, Real participated in the drilling of six wells (1.5 net), resulting in 3 (0.75 net) oil discoveries. These wells added significant new reserves and production of 440 bopd (110 bopd net). In early 1997 a new 10 square mile 3-D seismic program was shot. This program, in addition to two other 3-D programs, brings Real's total 3-D coverage to 28 square miles in the prospect area. The new integrated interpretation is expected to provide additional locations for drilling later in 1997 and early 1998.

MAJORVILLE: Real as operator has acquired the rights to four sections of prospective acreage. The Company is currently shooting two detailed 2-D seismic programs to define potential second quarter drilling targets.

LITTLE BOW: During 1996 on the Little Bow prospect, located southeast of Calgary, Real drilled two wells (1.0 net) resulting in one (0.5 net) successful Glauconite gas well. The well was put on production in August and averaged 3.0 mmcf/d (1.5 mmcf/d net) to the end of 1996. The Company also swapped acreage in this area with a major company to acquire acreage in the Hays/Enchant area where at least one well will be drilled after spring break up in 1997.



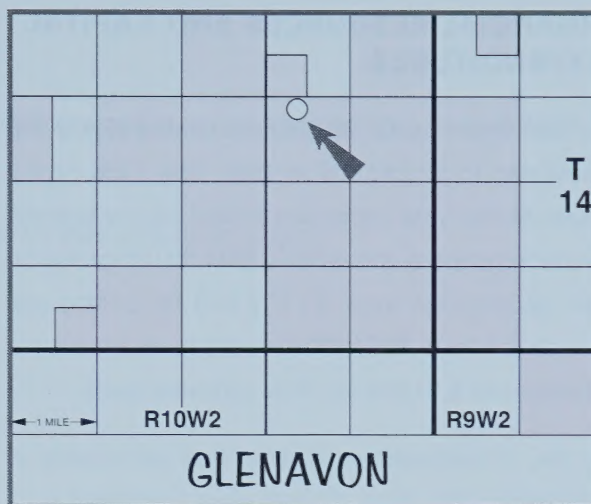
SASKATCHEWAN: On the Glenavon prospect located southeast of Regina, Real shot 375 miles of reconnaissance and detailed 2-D seismic. As a result of this program the Company was successful in acquiring 14,080 gross acres (7040 net acres) of exploratory land. One vertical exploration well is licensed and will be drilled after spring breakup.

Real also acquired 1760 gross acres (1056 net) in its new Saskatchewan core areas subsequent to year end through Freehold and Crown land purchases.

CACTUS LAKE: Real sold all of its properties in Cactus Lake for \$0.5 million. The transaction closed before the end of the first quarter of 1997 and the proceeds were used to reduce debt.

FLATLAND ACQUISITION: In January 1997, Real closed the acquisition of Flatland Resources Ltd, a private company with land holdings in southeast Saskatchewan. The main producing area is at Ashley Lake which is located southeast of Regina. At year end this property was producing 600 bopd (200 net bopd) from two horizontal wells and one vertical well. In addition , the Company has acquired 20 bopd production from three other producing prospects.

One of the principal advantages of this acquisition to Real is the addition of 7000 net acres of undeveloped land with good exploration and development potential. The land holdings of Flatland are focused within a radius of 40 miles and having a working interest ranging from 50-100%.



Subsequent to the acquisition, one farmout well in the Viewfield area has been drilled, completed and put on production as an oil well. This prospect has upside potential and further drilling is planned during 1997. Real also controls some prospective 100% working interest acreage on the prospect.

The Company plans to drill at least three horizontal development wells and three vertical exploratory wells during 1997 on the lands acquired through Flatland Resources Ltd.

Management Discussion and Analysis

FINANCIAL RESOURCES AND CAPITAL EXPENDITURES

In 1996, Real's capital expenditures totalled \$3,488,000 compared to \$2,293,000 in 1995. The 1996 capital expenditures were comprised of \$854,000 for land and producing property acquisitions, \$444,000 for geological and geophysical work, \$1,512,000 for drilling and completion costs, \$587,000 for well site equipment and facilities and \$ 91,000 for other corporate items.

At Evi, in northwestern Alberta, Real participated in drilling six wells, three of which were completed as oil wells. All wells, including two drilled in 1996, were tied into the Rainbow pipeline system. During 1997, Real acquired an interest in six sections of 3-D seismic and additional land.

In the Hays area, Real purchased 20 bopd of oil production. The Company drilled and completed three wells, expanded two batteries and initiated water injection into one under-pressured reservoir to reduce processing, water trucking and disposal expenses.

In Little Bow, Real drilled two wells one of which was completed as a Glauconite gas well and tied into a nearby gas plant. The second well was abandoned.

In the Glenavon area of Saskatchewan, Real participated in a large seismic program and subsequently acquired a 50 % interest in twenty-three sections of exploratory land.

In the Majorville area, Real drilled one well which was abandoned.

Real sold minor production and lands in 1996 the total proceeds of which were \$628,000.

During June and July 1996, Real issued 2,000,000 common shares at \$.80/share for proceeds of \$1,542,000 net of issue cost. On November 1, 1996 Real issued 600,000 flow-through common shares at \$1.05/share for proceeds of \$617,000 net of issue cost.

At December 31, 1996, Real had no debt and a working capital balance of \$ 1,590,000, an increase of \$896,000 over 1995 levels. This increase was due to operating income and proceeds of sales of shares exceeding net capital expenditures.

REVENUES AND EXPENSES

Operating income for 1996 was \$1,946,000, an increase of \$1,428,000 over 1995. This increase is due to new production from wells drilled in Evi and Little Bow and higher commodity prices.

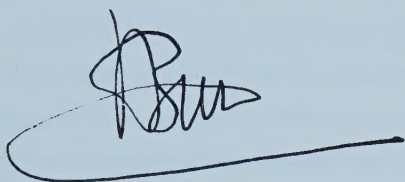
Administration expenses for 1996 were \$441,000, an increase of \$94,000 over 1995. The increase is due to the higher activity level and related staff additions.

Depletion and depreciation for 1996 was \$586,000, an increase of \$388,000 over 1995. This increase can be attributed to the higher production achieved in 1996.

During the remainder of 1997, Real plans to execute its drilling programs to be financed from internal cashflow. External funds will be raised if the program is expanded.

We would like to thank our shareholders, staff and directors for their continuing support.

Respectfully on behalf of the board.

A handwritten signature in black ink, appearing to read 'Frans Burger', with a long horizontal line extending to the right.

Frans Burger
President

Auditors' Report to the Shareholders

We have audited the balance sheets of Real Resources Inc. as at December 31, 1996 and 1995 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada

March 27, 1997

Balance Sheets

December 31, 1996 and 1995

	1996	1995
Assets		
Current assets:		
Cash	\$ 1,472,338	\$ 635,425
Accounts receivable	1,461,481	199,025
Prepaid expenses	8,373	5,020
	2,942,192	839,470
Capital assets (note 2)	6,662,240	4,008,029
Less accumulated depletion and depreciation	(1,159,465)	(573,753)
	5,502,775	3,434,276
	\$ 8,444,967	\$ 4,273,746

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,352,473	\$ 145,888
Site restoration provision	73,945	55,908
Deferred income taxes	406,873	70,923
Shareholders' equity:		
Share capital (note 4)	7,039,738	5,033,461
Deficit	(428,062)	(1,032,434)
	6,611,676	4,001,027
Subsequent events (note 7)		
	\$ 8,444,967	\$ 4,273,746

See accompanying notes to financial statements.

On behalf of the Board:



Francois Burger, Director and President



Dallas L. Droppo, Director and Secretary-Treasurer

Statements of Operations and Deficit

Years ended December 31, 1996 and 1995

	1996	1995
Revenue:		
Petroleum and natural gas revenues	\$ 2,788,035	\$ 890,658
Royalties	(232,595)	(77,041)
Production expenses	(608,871)	(294,892)
	1,946,569	518,725
Other income	38,951	33,004
	1,985,520	551,729
Expenses:		
General and administrative	440,715	346,892
Depletion and depreciation	585,712	197,970
Site restoration provision	18,771	7,493
	1,045,198	552,355
Income (loss) before income taxes	940,322	(626)
Income taxes (note 5):		
Current (recovery)	—	(4,160)
Deferred	335,950	6,925
	335,950	2,765
Income (loss) for the year	604,372	(3,391)
Deficit, beginning of year	1,032,434	1,029,043
Deficit, end of year	\$ 428,062	\$ 1,032,434

Per share amounts (note 6).

See accompanying notes to financial statements.

Statements of Changes in Financial Position

Years ended December 31, 1996 and 1995

	1996	1995
Cash provided by (used in):		
Operations:		
Income (loss) for the year	\$ 604,372	\$ (3,391)
Add (deduct) items not effecting cash:		
Depletion and depreciation	585,712	197,970
Site restoration provision	18,771	7,493
Deferred income taxes	335,950	6,925
Funds from operations	1,544,805	208,997
Change in non-cash working capital	(59,225)	(26,806)
Cash available for investing activities	1,485,580	182,191
Financing:		
Shares issued:		
For cash, net of costs	2,211,934	933,329
For assets	—	747,680
	2,211,934	1,681,009
Investments:		
Additions to capital assets	(3,487,856)	(2,293,007)
Dispositions of capital assets	627,988	361,000
Site restoration costs incurred	(733)	(1,165)
	(2,860,601)	(1,933,172)
Increase (decrease) in cash	836,913	(69,972)
Cash, beginning of year	635,425	705,397
Cash, end of year	\$ 1,472,338	\$ 635,425

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended December 31, 1996 and 1995

1. Significant accounting policies:

- (a) The financial statements include the accounts of Real Resources Inc. (the "Company") and its wholly-owned subsidiary, Blue Ridge Resources Inc. from the date of acquisition, being September 23, 1994. On June 30, 1995, Blue Ridge Resources Inc. was amalgamated with the Company.

- (b) Petroleum and natural gas properties:

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the acquisition, exploration and development of oil and gas reserves are capitalized. Such costs are accumulated in a single cost centre representing the Company's activities undertaken exclusively in Canada. The Company capitalizes a portion of administrative overhead costs and does not capitalize interest expense. These capitalized costs together with production and related equipment are depleted and depreciated using the unit-of-production method based on estimated proven oil and gas reserves, before royalties, as determined by an independent reservoir engineer. For purposes of the depletion calculation, gross proven oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content. The carrying value of unproven properties are normally deducted from costs without recognition of gain or loss, unless crediting the proceeds against accumulated costs would result in a significant change in the rate of depletion.

The Company periodically performs a ceiling test, whereby, capitalized costs less accumulated depletion, site restoration and deferred income taxes are compared to the net recoverable amount equal to the estimated undiscounted future net revenues, based on current prices and costs, derived from proven reserves, less the aggregate estimated future site restoration costs net of salvage values, general and administrative, financing and income tax costs plus the lower of cost and estimated fair value of unproven properties. In the event such net recoverable amount is less than capitalized costs less accumulated depletion, a provision for impairment is charged to income and the net book value of petroleum and natural gas properties is reduced accordingly.

The unit-of-production method is used to provide for estimated future site restoration costs of producing properties and facilities. These costs are based on year end estimates of the anticipated costs of site restoration.

Exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

- (c) Measurement uncertainty:

The amounts recorded for depletion, depreciation and amortization of property and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

- (d) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Oil and gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

2. Capital assets:

The cost of unproved properties of \$347,000 (1995 - \$350,000) has been excluded from the depletion calculation for the year.

During 1996, general and administrative expenses of \$76,000 (1995 - \$27,000) were capitalized to petroleum and natural gas property costs.

At December 31, 1996, costs of \$958,000 (1995 - \$729,000) included in the net book value of petroleum and natural gas properties were not deductible for income tax purposes.

3. Related party transactions:

- (a) During the year, the Company loaned \$80,000 to each of two officers in order for each officer to purchase 100,000 common shares of the Company. The loans are non-interest bearing and are repayable in equal instalments over the next four years.
- (b) In 1995 the Company purchased petroleum and natural gas properties in the Evi area from two companies which were owned by directors of the Company for \$147,680 which was settled with 227,200 common shares of the Company.
- (c) During 1994, the Company sold proprietary seismic data to a director for \$600,000 in satisfaction of the demand promissory note. On March 3, 1995 the Company exercised an option to re-acquire proprietary seismic data which was previously sold to a director for a value of \$600,000 which was settled with 937,500 common shares of the Company.

4. Share capital:

- (a) Authorized:

The authorized share capital consists of an unlimited number of common shares without nominal or par value, and an unlimited number of each class of first, second, third and fourth preferred shares. No terms of conditions for the preferred shares have been set by the Board of Directors.

- (b) Issued:

	Number of Shares	Amount
Common Shares		
Balance, December 31, 1994	7,543,861	\$ 3,506,410
Private placement for cash	750,000	412,500
Private placement for cash - flow-through shares	817,654	531,475
Issued to acquire assets	1,164,700	747,680
Effect of income tax deductions renounced on flow-through shares	—	(153,958)
Share issue costs	—	(10,646)
Balance, December 31, 1995	10,276,215	5,033,461
Private placement for cash	2,000,000	1,600,000
Private placement for cash - flow-through shares	600,000	630,002
Stock options exercised	155,000	53,500
Effect of income tax deductions renounced on flow-through shares	—	(205,657)
Share issue costs	—	(71,568)
Balance, December 31, 1996	13,031,215	\$7,039,738

4. Share capital: (Cont'd)

(c) The following options to purchase common shares are outstanding:

Number of Shares	Exercise Price	Expiry Date
40,000	\$ 0.20	September 21, 1999
305,000	\$ 0.50	September 23, 1999
400,000	\$ 0.85	July 15, 2000
25,000	\$ 0.60	September 18, 2000
50,000	\$ 0.60	September 23, 2000
10,000	\$ 1.00	October 9, 2001
410,000	\$ 1.05	October 9, 2001

(d) In October 1996, the Company completed a flow-through share offering whereby the Company issued a total of 600,000 common shares at \$1.05 per common share for a total consideration of \$630,002. The Company is committed to expend and renounce \$630,002 in qualified expenditures. At December 31 1996, the Company had incurred \$274,836 of expenditures and the balance to be incurred subsequent to year end.

5. Income taxes:

The provision for income taxes in the statement of operations reflects an effective income tax rate which differs from combined Federal and Provincial statutory tax rates. The main differences are summarized as follows:

	1996	1995
Income (loss) before income taxes	\$ 940,322	\$ (626)
Corporate income tax rate	44.6%	44.6%
Computed income tax provision (recovery)	419,384	(279)
Increase (decrease) resulting from:		
Non-deductible Crown payments, net	100,962	30,021
Resource allowance	(180,671)	(22,293)
Other	(3,725)	(524)
Reassessment of prior year's taxes	—	(4,160)
	(83,434)	3,044
Actual income tax provision	\$ 335,950	\$ 2,765

The Company has available for deduction against future taxable income undepreciated capital cost, Canadian exploration expense, Canadian development expense and Canadian oil and gas property expense aggregating approximately \$3,630,000 (1995 - \$2,580,000) some of which may be restricted and be deductible only against revenues from certain properties.

6. Per share amounts:

	Basic and fully diluted	
	1996	1995
Income (loss) per share:		
Basic	\$.05	\$ –
Fully diluted	\$.05	\$ –
Weighted average number of shares outstanding:		
Basic	11,523,715	8,813,374
Fully diluted	12,223,850	9,433,992

7. Subsequent events:

Effective January 1, 1997, the Company acquired all of the outstanding shares of Flatland Resources Ltd. and Flatland Energy Inc. for an aggregate consideration of \$4.5 million, subject to final adjustments. These acquisitions were financed by bank debt of \$3.6 million and working capital.

On January 31, 1997, Flatland Resources Ltd., Flatland Energy Inc. and the Company were amalgamated and will continue to operate as Real Resources Inc.

Corporate Directory

Corporate Office

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Telephone: (403) 262-9077
Facsimile: (403) 262-6403

Directors

Martin G. Abbott
Frans Burger
Dallas L. Droppo
Ted W. Hamilton

Officers

Frans Burger, President & CEO
G.D. (Gordie) Crowell, Vice President Exploration
K.P. (Ken) Murphy, Vice President Land
and Corporate Development
Harvey R. Pederson, Vice President Operations
Dallas L. Droppo, Secretary

Registrar and Transfer Agent

Montreal Trust Company of Canada
411 Eighth Avenue S.W.
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T2P 1E7

Bankers

Canadian Western Bank
441 Fifth Avenue S.W.
Calgary, Alberta
T2P 2V1

Legal Counsel

Blake, Cassels & Graydon
3500, 855 Second Street S.W.
Calgary, Alberta
T2P 4J8

Auditors

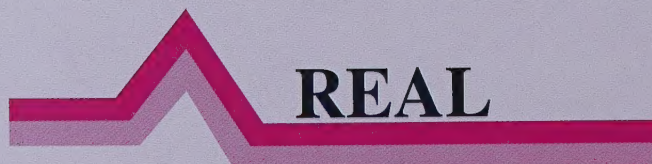
KPMG
1200, 205 Fifth Avenue S.W.
Calgary, Alberta
T2P 4B9

Stock Exchange

Alberta Stock Exchange
Trading Symbol: RER

Abbreviations

bbls	barrels
mbbls	thousand barrels
bopd	barrels of oil per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
boe	barrels of oil equivalent where in natural gas is equated to oil using 10 mcf = 1 barrel of oil
mboe	thousand barrels of oil equivalent
NGL	natural gas liquids



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